CONCORDIA UNIVERSITY

BOARD OF GOVERNORS

CONCORDIA EMPLOYEE BENEFITS COMMITTEE

Meeting of January 13, 1982

ATTENDANCE: Mr. G. Fisher, Acting Chairman, Prof. G. Martin, Prof. C. Potter Mr. H. Ripstein, Mr. B. Smart, Mr. Colin Waters, Mr. R. Doutre, Miss D. Johnson, Mr. J.L. Bourbeau & Mr. M. Hamilton of William M. Mercer Ltd.

Comparative Measurement Review: Mr. G. Blain of Wood Gundy
Investment Management: Mr. D. Williams, Beutel Goodman
Mr. D. Kertand, Jarislowsky Fraser

IN ABSENTIA: Mr. S. Huza

Minutes of the Meeting of December 9, 1981

It was proposed by Prof. Martin and seconded by Mr. B. Smart that the minutes of the meeting of December 9, 1981 be approved, the motion was unanimously carried.

Interest on Employee Contributions (Excess Interest Approaches)

Mr. Malcolm Hamilton reviewed the document entitled "Interest Credited on Employee Contributions". He noted that the 6% rate of interest presently credited on employee contributions was nowhere near the market rate of interest and this could represent a disincentive to younger employees who might consider participating in the pension plan as contributing members.

The cost of improving the interest rate would be reflected in the valuation as a reduced amount of experience gains. In effect these experience gains would be used to improve employee benefits rather than reducing the amount of Employer contributions.

In Saskatchewan legislation has been passed with respect to the applicable interest rate and plans must use the average rate of earnings on Long Term Bonds over 10 years.

The Chairman noted that there had never been a spokesman in the decision making bodies to represent terminating employees and the loss of the vesting of Employer contributions was a sufficient penalty without also losing out on an inadequate interest rate.

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Mr. Smart pointed out that some participants may not have opted to contribute at the open enrolment date (January 1, 1982) because of the low interest rate. He also noted that many employees don't know whether or not they will remain in the employ of Concordia at the time they are hired and the prevailing interest rate of 6% would not encourage them to participate in the plan.

Colin Waters indicated that the 6% interest rate had been established in 1970 when it was a fair rate of interest but no steps had been taken to adjust the rate as increasing interest trends had developed.

Mr. Hamilton noted that since the rate of return on the pension plan was so volatile it would be simpler to attach the interest rate to a Savings Account rate which is more easily identifiable. He pointed out some options which are summarized in the working document entitled "Recommendation: Interest on Employee Contributions."

Prof. Martin inquired as to whether our plan rate of return had exceeded these rates in the past. It was noted that the current average rate of return over 10 years is 9%.

Discussion regarding which rate to use ensued and the following resolution was proposed by Mr. B. Smart:

> BE IT RESOLVED
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> That effective January 1, 1982 the rate of interest on employee contributions during a calendar quarter shall be the average non-chequeable savings deposits rate as published by the Bank of Canada as of the last week of the month preceeding the calendar quarter.
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> The motion was seconded by Colin Waters and unanimously carried.

Mr. Smart noted that this news would be happily received by the participants and efforts should be made to publicize it. It was noted that prior Board approval was required before the information could be published.

Ex-Gratia Pension Adjustment

Mr. Hamilton reviewed the "excess interest" approaches to provide for funding of pension adjustments within the pension plan. It was noted that if the assets required to fund retirement pensions were segregated in the fund and a clearly defined formula was established the pension adjustments could be financed within the pension plan.

Mr. Hamilton noted that in the short-term, rates of return and C.P.I. are imperfectly correlated and the "excess interest" approach puts the onus of risk onto the employer and the fund rather than the pensioner. Mr. Hamilton noted that there is also an element of risk involved in not funding pension adjustments and most of this risk is borne by the pensioner. If there are insufficient funds to finance an adjustment the pensioner bears the risk.

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Mr. Hamilton also pointed out that there are disadvantages in establishing minimums and maximums on pension adjustments. A greater proportion of the income of those receiving smaller pensions is already indexed through the Quebec Pension & Old Age Security increases.

For those receiving larger pensions a smaller percentage of their income is indexed, whereas the assets required to fund the larger pensions earn more proportionately than those required to fund a smaller pension.

Mr. Smart noted that the ultimate standard was that followed by the government plans in providing full C.P.I. adjustments. Should the University follow the government style or follow the style of the private sector?

Prof. Martin noted that if the adjustments were to be made automatic they would have to be funded by the pension fund. The University is facing an atmosphere of rising costs and reductions in government funding.

A question was raised regarding adjustments for the vested terminated group. It was noted that no adjustments had been made to these benefits prior to retirement but the pensions of vested retired participants had been adjusted along with any other retirement pension adjustments which were approved.

Colin Waters noted that there were two types of vested participants, those who had voluntarily vested their pensions and those whose pensions were locked-in by legislation.

Bruce Smart indicated that the problem of the vested members was similar to that involving the availability of Reciprocal Transfer Agreements; there is discrimination against those members who do not have a "golden handshake" alternative of a Reciprocal Transfer Agreement or an improvement in their vested pension benefit.

Prof. Martin indicated that this topic brings us back to the debate on the Reciprocal Transfer Agreement with C.A.R.R.

It was agreed that the Deferred group would be the topic of discussion at a future meeting.

The following motion regarding Pension adjustments was proposed by Bruce Smart and seconded by Prof. Potter:

> That commencing June 1, 1982 and every second year thereafter the Committee shall consider increasing the pensions, from the pension fund, of those currently in receipt of a pension. In arriving at the amount of the increase the Committee shall consider, among other things:
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> a) the extent of any excess interest earned on the portion of the pension fund associated with the pensioners' liability, and
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> b) the increase in the Consumer Price Index since the last adjustment.

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The Committee concluded that article "c" of the proposed motion was implicit under article "a" and was, therefore, unnecessary. It was also decided that no amount should be stated until further information is available.

The revised motion as stated above was unanimously carried.

Documentation Request From C.U.F.A.

Prof. Martin presented a letter of request for documentation which the Rector had received from C.U.F.A. He noted that since some of the items requested would not normally be released to individual members and it was also a matter of some concern as to the role of this Committee with respect to proposals regarding the Benefits package.

It was noted that the Committee might be prepared to authorize the release of some of the documents to an association but other documents contain confidential information which should not be distributed to an association.

The Chairman requested that the item be tabled for further review and discussion since there were several items covered in the request. A considerable amount of discussion might be necessary and time constraints prevented appropriate consideration.

Wood Gundy Comparative Measurement

Mr. Blain advised the Committee that the June report includes both annual and historical information regarding fund performance. Since the current investment counsellor took over the portfolio in April 1980 only the performance following that date can be attributed to their management.

In June the market value of the fund was 42.6 million and by September this had dropped to 40 million. Asset mix decisions attributed to this reduction in Market Value, however, the large cash holdings for the same period proved to be an excellent decision in comparison to the performance of any other holdings.

Beutel Goodman have maintained consistent holdings in equities and have been reducing bonds in favour of equities. Their timing of the change has been perfect.

Jarislowksy Fraser's results increased initially but declined in more recent months. Their bond exposure has increased recently and cash holdings have been decreased. Although the Canadian equity holdings reflected superior performance this represented a neutral factor overall due to the average or below average performance in other areas. (Bond performance was mildly below average and the Non-Canadian equities resulted in average returns.) Both managers chose Canadian securities which out-performed all the selections on the Toronto Stock Exchange.

NOTE: The complete texts of the Wood Gundy reports, previously submitted to members of this committee, will form Appendix A of these minutes.

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Investment Review - Beutel Goodman

Mr. David Williams provided Committee members with copies of the Fourth Quarter Report and summarized the investment performance of their portion of the Concordia portfolio.

Beutel Goodman has tried to preserve values in the portfolio and although substantial cash reserves were withheld from the equity market Mr. Williams noted that returns would have been better if all the new cash had been withheld and maintained in short-term vehicles. (The overall portfolio declined 1% in the last quarter.) Some cash reserves were added to the bond market to take advantage of some high rates of return. Mortgage holding are being allowed to mature to take advantage of better opportunities in longer term instruments.

Based upon the one and two year returns the Concordia Fixed Income portfolio has outperformed the M.Y.W.50 Index and it was only in the last quarter that the portfolio performance dropped as compared to the index but still produced a 12.6% rate of return in a very buoyant bond market environment.

The Equity portfolio outperformed both the Canadian and U.S. market indicies over the one and two year time frames and in the last quarter the Concordia returns were 5.5% compared to the T.S.E. "300" of 4.9% and the S & P "500" of 5.2%.

It is the intention of Beutel Goodman to maintain a fully invested position in the U.S. market to take advantage of the positive opportunities which they believe will prevail. Beutel Goodman is also looking for a turn in the auto and housing industries and a subsequent turn in corporate spending. New Canadian acquisitions will be selected cautiously when weaknesses occur in individual issues.

Investment Review - Jarislowksy Fraser

Mr. Kim Kertland reviewed the investment performance of the Jarislowksy Fraser portfolio. He noted that Jarislowksy Fraser is trying to obtain a sustained growth pattern in the fund. They have sold some larger bonds because of what is anticipated for 1982. In the U.S. inflation appears to be in control whereas on the Canadian side there are still labour problems as well as very volatile interest rates.

Cash reserves are being maintained on the Equity side because the market has been so rotten. (18% Cash) Jarislowksy Fraser is remaining fully invested on the U.S. side. As the market weakens Jarislowksy Fraser will invest; a weak market is expected in the next two quarters.

Jarislowsky Fraser is keeping the average term of their bond holdings down below 5 years, this limits exposure to the increasing rates of interest.

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A credit crunch could develop by the second quarter of '82 with substantial demands for government funding and corporate funding. If this develops the interest rates will be forced up.

Neither investment counsellor expressed any concern over the Investment Guidelines they have been operating with.

The meeting adjourned at 3:15 p.m.

Respectfully Submitted

M. D. Johnson
Secretary, Concordia Employee
Benefits Committee